EL PASO FIREMEN & POLICEMEN'S PENSION FUND
REGULAR MEETING
Wednesday, August 24, 2016 at 1:00 PM
El Paso Firemen and Policemen's Pension Fund Office
909 East San Antonio Avenue, El Paso, Texas 79901

MINUTES

TRUSTEE MEMBERS PRESENT

Fire Division:

Chief Ricci Carson
Lieutenant Paul Thompson
Chief Jerry Villanueva

Police Division:

Lieutenant John Schneider
Sergeant JD Cotham

Mayoral Appointments:

Dr. Robert Tollen
Mr. Presi Ortega

City Manager Appointments:

Ms. Terri Garcia
Ms. Judy A. Balmer

OTHERS PRESENT

Mr. Tyler Grossman – Executive Director
Ms. Christina Ramirez – Deputy Executive Director
Ms. Lena Ellis – CFO
Mr. Eric Ralph – Summit Strategies
Mr. David Kent – Buck Consultants

TRUSTEE MEMBERS ABSENT:

Sergeant Sean Shelton
Ms. Carmen Arrieta-Candelaria

1. Establishment of Quorum.

Chairman Villanueva established that a Quorum was present. The Regular Meeting of the El Paso Firemen & Policemen's Pension Fund Board of Trustees was called to order at 1:00 p.m.

2. Election and approval of a Chairperson and a Vice-Chairperson of the Board of Trustees for a term of two years in accordance with Section 3 of the By-Laws of the Board of Trustees.

Dr. Tollen nominated Mr. Jerry Villanueva for Chairperson, seconded by Mr. Cotham and the motion passed unanimously by the Board.

Mr. Cotham nominated Mr. Paul Thompson for Vice-Chairperson, seconded by Mr. Ortega and the motion passed unanimously by the Board.

Chairperson Villanueva presided for the remainder of the meeting.

3. Reading and approval of the Minutes from the previous Regular Board Meeting held July 20, 2016.

Mr. Thompson moved to approve the minutes of the Regular Board Meeting held July 20, 2016, seconded by Dr. Tollen and unanimously passed by the Board.

Consent Agenda

Mr. Ortega wanted to comment on Item 4. He stated that the Investment Committee reviewed the fees paid by the Fund at the committee level and noted that the fees come to 43 bps which is less than ½ a percent of investments.

Dr. Tollen moved to approve the Consent Agenda, seconded by Mr. Carson and passed by the Board.

1. Internal Financial Statements for month ending July 31, 2016.

   Northern Trust Financial Statements for month ending July 31, 2016.

2. Expense Reports for the month ending July 31, 2016.

3. Approve Pension Payrolls:

Fire	$2,624,343.44
Police	$3,633,027.12

4. Payments to Service Providers

A.	Salena Karam Ayoub – thru 6/30/2016	$458.10
B.	Baillie Gifford – 2nd Q2016	$135,968.74
C.	Brown Advisory – 2nd Q2016	$38,711.77
D.	Fidelity – 1st Q2016	$108,947.36
E.	Fidelity – 2nd Q2016	$111,784.59
F.	Haynesboone – thru 6/30/2016	$1,262.26
G.	IceMiller – thru 6/30/2016	$1,976.76
H.	Legislative Consultants – July 2016	$5,234.74
I.	Meketa – 2nd Q2016	$68,750.00
J.	Moss Adams – Progress billing 2015 Audit	$8,900.00
K.	The Northern Trust Company – 2nd Q2016 (Custody and Benefit Payments)	$24,893.37
L.	The Northern Trust Company – 2nd Q2016 (Quantitative)	$10,084.39
M.	PIMCO – 2nd Q2016	$122,890.87
N.	Sheehan Phinney – Thru May 31, 2016	$7,942.12
O.	Strasburger & Price, LLP – May 31, 2016	$850.00
P.	Summit Strategies Group – 2nd Q2016	$58,335.00
Q.	Xerox (Buck) – 2nd Q2016	$39,572.00
R.	Xerox (Buck) – 2nd Q2016 (Staff Plan)	$11,530.00

Ms. Garcia arrived at 1:06 pm.

Reports and recommendations of Committees

Speaking on behalf of the Investment Committee, Dr. Tollen explained that the Investment Committee met today and summarized the following items discussed. In September, the Committee will recommend that a shift be made out of WAMCO and into Pinebridge. A motion will be brought to the September Board meeting; in the meantime, work should begin on contracting with Pinebridge. Pinebridge has a better long-term performance. Also because International Growth Equity has not been projected to do well, the committee passed a motion to shift 30M from Fidelity (Pyramis) to Mondrian. That motion will be brought to the September Board meeting. There is no shift in the Fund's International commitment instead the shift is from International Growth to International Value. This does not result in a change to asset allocation. At the next meeting, the Committee will request a shift in the percent allocation so that this move is consistent with the Investment Policy. Large Cap Growth was also discussed (that is Brown Investment Management), but will be further discussed in the future. Meketa will be in town in October to discuss secondary markets with the Investment Committee. Summit Strategies recommended that real estate investment be rebalanced by moving 4M from Invesco and putting 2M into Master Limited Partnerships (Harvest) and 2M into fixed income. The Committee decided to leave the existing real estate allocation as it currently stands; however there will be a recommendation for a change to the Investment Policy Statement forthcoming. Currently the allocation to Real Estate is from 0% to 10% and the Fund is currently invested to the 10%, so when the investment goes above 10%, it has to be allocated down. The probable recommendation will be to leave the target at 10% but change the range from 0% to 12%. This will allow the real estate investment to grow.

Unfinished Business

New Business

1. Investment Performance Review for the period April 1, 2016 to June 30, 2016 and update as presented by Eric Ralph from Summit Strategy.

   Mr. Ralph began his discussion with International Equities. He explained that they were down for the trailing one year 10.2% and for the quarter 1.5%. Most of this is tied to Brexit. The Alerian MLP Index was the best performing asset class. It was up almost 20% for the quarter. It rebounded as oil prices stabilized. For the trailing one year, it was still down 13.1%.

   Thirty years ago, a 7% return could be earned with minimal risk because short-term interest rates were high. Today at the end of 2015 in order to get a 7% return, the Fund would have to invest 87% in equities and risk would be increased to 9.5%. Going forward, returns will be hard to obtain. Thirty years ago, fixed income yielded over 10%, equity yielded 10%, and cash yielded over 7%. Today fixed income is at 1.9%, equity is at 3.8%, and cash is at 0.3%. Thirty years ago to get a $100,000 mortgage it would cost $1,067 monthly. Today that same mortgage would cost $450.

   Negative interest rates are designed to try to force savers to spend money or invest in riskier assets to try to earn some kind of return; however spending is actually going down. People are saving more because they realize how bad the economy really is.

   Currently the market is expecting 1.6% inflation going forward. Slow growth globally coupled with the potential for inflation will cause stagflation.

   The total fund returned 1.4% for the quarter ahead of the policy index. International and fixed income outperformed the index by 28 bps and 46 bps. Mondrian outperformed its benchmark by 1.4% and was in the top 20th percentile. WAMCO outperformed its benchmark by 1.5% and ranked in the top decile as energy, metals and mining bonds rebounded. The US Equity Composite was up 2.3% but lagged its benchmark by 63 bps. Cooke & Bieler and Brown lagged respectively. Currently, the Fund is at 1.252B in assets. The total Fund returned 2.38% and the benchmark was at 2.26%. The majority of the value added came from these managers: US small cap mangers and Developed International specifically Mondrian. Calendar year to date, the Fund is in the 66 percentile versus peers and ahead of the benchmark. The expected standard deviation of the Fund's portfolio is between 12% and 12.5%. The Fund has realized a standard deviation over the past three years of 5.5%. Emerging Markets is up 11.77% for calendar year to date thru July.

   Regarding high yield type investment exposure in the Fund's portfolio, these below investment grade bonds comprise 15% of the fixed income portfolio and 6% of the private equity portfolio. Together those two are less than 5% of the total portfolio. That is a reasonable risk made-up of 85% core versus 15% high yield. This keeps the integrity of the fixed income portfolio meaning that it will help protect the Fund on the downside if equities sell off quite a bit. It is roughly 60 bps of the Fund's total Fund risk. Equities make up close to 80 to 90% of the Fund's risk. This is less than 1% of that risk. El Paso's high yield exposure is appropriate, as the fixed income portfolio is diversified across qualities and sectors and the total portfolio is diversified across regions and asset classes.

2. Discussion and action on approval of January 1, 2016 Actuarial Valuation – Fire Plan as presented by Mr. David Kent of Buck Consultants.

Mr. Kent explained that he would be discussing the major findings and some specifics about the actuarial valuation report. The Forward DROP had no impact on this valuation because it did not begin until July 1, 2016, and this valuation is a snapshot as of January 1, 2016. The experience study which was reviewed at the July board meeting did require a change to the retirement assumption because everybody was working longer than originally thought. The longer somebody works lowers the Fund's liability. The Forward DROP should bring gains because it should cause people to work longer.

Hi-lights of the Funding: For the Fire Plan, the funded ratio is hovering at around 80%. The years to fund went from 23 years in 2014 to 26 years in 2016. For Police, the funded ratio went up to 81%. The years to fund went from 32 years in 2014 to 33 years in 2016.

The active member census for Fire does not show steady growth. New people are not being hired; instead people are working longer and are getting paid overtime. The number of retirees is increasing every year. The same is true for Police.

Actuarial Value is used for the valuation. Gains and losses are recognized over a 5 year period. They are smoothed in over time. The Actuarial value is not as eradic as the market value.

For Fire, the Normal Cost Rate is 22.14% or 21.29% adjusted for overtime. The total contribution percentage for fire is 33.78%; therefore 21.29% of the 33.78% is paying for actives and the remaining 12.49% is paying for the unfunded liability. This is a snapshot at January 1, 2016. However for second tier employees, the normal cost rate is 17.16%. It is expected that the 22.14% normal cost rate will grade down each year as more second tier employees come into the Fund. As this happens, more money will begin to go towards the Fund's unfunded liability. The Years to Fund is 26 years.

For Police, the Normal Cost Rate is 25.35% or 23.05% adjusted for overtime. The total contribution percentage for police is 32.39%; therefore 23.05% of the 32.39% is paying for actives and the remaining 9.34% is paying for the unfunded liability. As second tier employees go into the Police Fund each year the 9.34% will increase. The years to fund is 33 years.

3. Discussion and action on approval of January 1, 2016 Actuarial Valuation – Police Plan as presented by Mr. David Kent of Buck Consultants.

After careful discussion and due consideration, Mr. Ortega moved to approve both the Fire and Police Plans, January 1, 2016 Actuarial Valuations, seconded by Dr. Tollen and passed unanimously by the Board.

4. Discussion and action on approval of January 1, 2016 Actuarial Valuation – Staff Plan as presented by Mr. David Kent of Buck Consultants.

   The Retirement Rates assumption for the staff plan is based on those used for the City municipal plan because public safety retirement behavior will be different than staff plan retirement behavior. The investment assumption is the same as that for the Police and Fire plan since it is invested in the same trust as the investments of the police and fire plan. A flat 4% salary increase was used for staff salaries. For the mortality assumption, the new RP-2014 table was used projected 30 years out.

   The normal cost for the Staff Plan is $56,879. The actuarial value of assets is $162,861. This is because the Plan was pre-funded. The Plan Document states that the Plan should be funded with the normal cost plus a 10-year amortization of the unfunded liability. When the Plan was first funded, more contributions were put in to get the Plan established. The Funded Ratio is 283% because the accrued liability is $57,572 and the actuarial value of assets is $162,861. The 10 year amortization is zero because there is no unfunded liability. This year just the normal cost has to be funded or $56,879. The member contribution is 10% and the normal cost rate for this plan is 11.25% which means that the member contribution rate is funding the vast majority of this plan. The members are funding almost their entire benefit. If the Fund would go to a 2:1 ratio, the members would put in 3.75% in contributions and the Fund would put in 7.5% in contributions.

   In addition to approving the Staff Plan Actuarial Valuation, Mr. Grossman explained to the Board that he recommends that contributions be lowered but not to the exact normal cost rate but instead to 5% for staff and 7.5% for the Fund. This would bring the Staff Plan to 12.5% in total contributions instead of the 11.25% normal cost rate. (This is for Item 5 of the agenda.)

   After careful discussion and due consideration, Mr. Ortega moved to approve the January 1, 2016 Actuarial Valuation – Staff Plan, seconded by Ms. Balmer and passed unanimously by the Board.

5. Discussion and action on modification of Staff and Fund contribution rates for Staff Plan.

   Mr. Grossman reiterated his recommendation regarding the Staff and Fund contribution rates. Currently the staff pays 10% and the Fund pay 15% in contributions. He recommends that both be cut in half to 5% and 7.5%. The Staff Plan would then be paying 12.5% which is greater than the 11.25% normal cost rate. The Funded Ratio for the Staff Plan is at 283% as of January 1, 2016. The contribution rates could be lowered even further based on the funded ratio but these rates should continue to provide a cushion in case investment returns are lower than the 7.75% investment return assumption.

   Mr. Grossman briefly discussed the deferred compensation plan which will be offered to the staff through AXA Equitable Life Insurance Company.

After careful discussion and due consideration, Mr. Schneider moved to approve that contribution rates for both Employee and Employer be lowered on the Staff Plan from 10% and 15% to 5% and 7.5% respectively, seconded by Dr. Tollen and passed unanimously by the Board.

6. Opportunity for Statements from Members/Retired Members/Public.

None.

7. Report of Executive Director.

See submitted Written Report

8. For Notation:

Informational Material For Review. No Action Required.

A. Service Retirement(s)

B. Early Retirement

C. Deferred Retirement

D. Death of member(s)

E. Cost of Living Adjustments

F. Refund of Contributions

9. Adjournment.

Mr. Ortega moved to adjourn seconded by Mr. Schneider and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 2:36 p.m.

Chairperson

Secretary